

CITY OF MARQUETTE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

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CITY OF MARQUETTE

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
John Ries	Mayor	Jan 2010
Darren Mathews	Mayor Pro tem	Jan 2010
Tracy Melver	Council Member	Jan 2010
Mary Jo Pirc	Council Member	Jan 2010
Jason Winter	Council Member	Jan 2012
Jim Meana	Council Member	Jan 2012
Dean Hilgersen	City Manager	Indefinite
Maryanne Trudo	Clerk/Treasurer	Jun 30, 2010
James Garrett	Attorney	Indefinite
(After December 2009)		
Norma Mason	Mayor	Jan 2012
Jason Winter	Mayor Pro tem	Jan 2012
Jim Meana	Council Member	Jan 2012
Tracy Melver	Council Member	Jan 2014
Mary Jo Pirc	Council Member	Jan 2014
Rinda Ferguson	Council Member	Jan 2014
Dean Hilgersen	City Manager	Indefinite
Maryanne Trudo	Clerk/Treasurer	Jun 30, 2010
James Garrett	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marquette's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marquette as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2010 on our consideration of the City of Marquette's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marquette's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

November 5, 2010

Diety, Donald Company

CITY OF MARQUETTE

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Marquette provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 24.8% or approximately \$ 427,000 from fiscal 2009 to fiscal 2010. The City received a flood control capital grant of \$ 521,155 in 2010. However, gaming revenue decreased nearly \$ 70,000.

Disbursements of the City's governmental activities increased 94.3%, or approximately \$ 892,000 in fiscal 2010 from fiscal 2009. Capital projects disbursements increased approximately \$ 938,000, while public safety disbursements decreased over \$ 39,000.

The City's total cash basis net assets increased 3.3%, or approximately \$ 135,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$ 137,000 and the assets of the business type activities decreased by approximately \$ 2,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

The City's Reporting Entity Presentation

This annual report includes all activities for which the City of Marquette City Council is fiscally responsible. These activities defined as the City's reporting entity, are operated within a separate legal entity that is the primary government and another separate legal entity that is included as a component unit.

The primary government consists of one legal entity, the City of Marquette.

The component unit presentation consists of one legal entity, the Mar-Mac Unified Law Enforcement District.

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and capital projects. Property tax, state and federal grants, and gaming revenues finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Discretely Presented Component Unit consists of the Mar-Mac Unified Law Enforcement District, a legally separate organization that has the potential to provide specific benefits or impose specific financial burdens on the City.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise

Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$ 4.018 million to \$ 4.154 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 230	264
Operating grants, contributions, and restricted interest	44	56
Capital grants	521	-
General receipts:		
Property tax	346	436
Local option sales tax	32	31
Gaming wager tax	639	709
Sale of assets	40	40
Unrestricted investment earnings	116	145
Other general receipts	8	7
Total receipts	<u>1,976</u>	<u>1,688</u>
Disbursements:		
Public safety	143	183
Public works	132	148
Health and social services	-	-
Culture and recreation	80	60
Community and economic development	1	11
General government	220	220
Capital projects	1,263	325
Total disbursements	<u>1,839</u>	<u>947</u>
Change in cash basis net assets	137	741
Cash basis net assets beginning of year	4,017	3,276
Cash basis net assets end of year	<u>\$ 4,154</u>	<u>4,017</u>

The City's total receipts for governmental activities increased approximately \$ 137,000. The total cost of all programs and services increased approximately \$ 892,000 or 94.3%. This significant increase in disbursements was due to \$ 1.143 million more being spent on a flood control project in 2010 than in 2009.

The cost of all governmental activities this year was \$ 1.839 million compared to \$ 947,000 last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$ 1.045 million because some of the cost was paid by those directly benefited from the programs (\$ 230,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 565,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in 2010 from approximately \$ 319,000 to approximately \$ 795,000. The City paid the remaining "public benefit" portion of governmental activities with approximately \$ 378,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest (\$ 116,000) and gaming wager receipts (\$ 639,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 90	94
Sewer	87	98
Total receipts	177	192
Disbursements:		
Water	77	106
Sewer	102	90
Total disbursements	179	196
Change in cash basis net assets	(2)	(4)
Cash basis net assets beginning of year	77	81
Cash basis net assets end of year	\$ 75	77

Total business type activities receipts for the fiscal year were \$ 177,000 compared to \$ 192,000 last year. The cash balance decreased by approximately \$ 2,000 from the prior year. Total disbursements for the fiscal year decreased by 8.6% or approximately \$ 17,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Marquette completed the year, its governmental funds reported a combined fund balance of \$ 4,017,611, an increase of \$ 741,019 over last year's total of \$ 3,276,592. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 371,274 from the prior year to \$ 4,031,019. The General Fund transferred \$ 741,578 to various capital project funds and received \$ 617,395 from the TIF fund as repayment of past transfers.

TIF revenues were used to transfer \$ 617,395 to the General Fund as a payment on an interfund loan.

The Capital Projects, Flood Control Fund disbursed \$ 1,229,043 during the current fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 18, 2010 and resulted in an increase of \$ 223,163 in budgeted disbursements, a result of additional disbursements for capital projects.

The City's receipts were \$ 451,287 more than budgeted. This was primarily due to the City exceeding budgeted intergovernmental revenues by \$ 530,036, as the I-Jobs flood control grant was received after budget approval.

DEBT ADMINISTRATION

At June 30, 2010 and 2009, the City had no long-term debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is \$ 1,598,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Marquette's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates,

and fees that will be charged for various City activities. One of those factors is revenue from the gaming boat. Total gaming boat receipts for the years ended June 30, 2010, 2009, and 2008 were \$ 807,000, \$ 889,000 and \$ 1.003 million respectively. New gaming facilities in Iowa and a depressed economy will continue to put downward pressure on these receipts.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are \$ 1.822 million, an increase of 9.7% over the final fiscal 2010 budget. Budgeted disbursements are expected to increase approximately \$ 59,000, with public safety disbursements budgeted to increase approximately \$ 64,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 724,000 by the close of 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dean Hilgersen, City Manager, 88 North Street, Marquette, Iowa.

Basic Financial Statements

Exhibit A

CITY OF MARQUETTE
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2010

Functions/Programs: Governmental activities:	Program Receipts			Primary Government		Component Unit Mar-Mac Unified Law Enforcement District
	Disbursements	Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	
Public safety	\$ 143,493	69,961	-	-	(73,532)	-
Public works	132,136	42,967	43,881	-	(45,308)	-
Health and social services	316	-	-	-	(316)	-
Culture and recreation	79,799	105,726	-	-	25,927	-
Community and economic development	632	-	-	-	(632)	-
General government	219,968	11,251	-	-	(208,717)	-
Capital projects	1,263,359	-	-	521,155	(742,204)	-
Total governmental activities	1,839,773	229,905	43,881	521,155	(1,044,782)	-
Business type activities:						
Water	77,428	81,746	-	-	4,318	4,318
Sewer	101,985	86,504	-	-	(15,481)	(15,481)
Total business type activities	179,413	168,250	-	-	(11,163)	(11,163)
Total primary government	\$ 2,019,136	398,155	43,881	521,155	(1,044,782)	(11,163)
Component unit Mar-Mac Unified Law Enforcement District	\$ 255,642	197,509	10,803	-	-	(47,330)
General Receipts: Property tax and other city tax levied for:						
General purposes					6,931	-
Tax increment financing					339,432	-
Local option sales tax					31,502	-
Gaming wager tax					638,992	-
Unrestricted interest on investments					115,873	501
Miscellaneous					8,254	1,074
Sale of assets					40,500	3,461
Total general receipts					1,181,484	5,036
Change in cash basis net assets					136,702	(42,294)
Cash basis net assets, beginning of year					4,017,611	82,896
Cash basis net assets, end of year					\$ 4,154,313	40,602
Cash Basis Net Assets:						
Restricted:						
Overpass demolition					100,000	-
Streets					3,776	-
Capital projects					119,518	-
Unrestricted					3,931,019	40,602
Total cash basis net assets					\$ 4,154,313	40,602

See notes to financial statements.

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

Exhibit B

	General	Special Revenue Urban Renewal Tax Increment Financing	Capital Projects Flood Control	Nonmajor	Total
Receipts:					
Property tax	\$ 6,931	-	-	-	6,931
Tax increment financing	-	339,432	-	-	339,432
Other city tax	670,494	-	-	-	670,494
Licenses and permits	3,920	-	-	-	3,920
Use of money and property	297,680	-	-	-	297,680
Intergovernmental	5,384	-	521,155	-	565,036
Charges for service	42,967	-	-	38,497	42,967
Miscellaneous	9,465	-	-	-	9,465
Total receipts	1,036,861	339,432	521,155	38,497	1,935,925
Disbursements:					
Operating:					
Public safety	143,493	-	-	-	143,493
Public works	97,176	-	-	34,980	132,156
Health and social services	316	-	-	-	316
Culture and recreation	79,799	-	-	-	79,799
Community and economic development	632	-	-	-	632
General government	219,968	-	-	-	219,968
Capital projects	541,384	-	1,229,063	34,316	1,263,359
Total disbursements	495,457	339,432	(707,888)	(30,799)	96,202
Excess (deficiency) of receipts over (under) disbursements					
Other operating sources (uses):					
Sale of capital assets	617,395	-	-	40,500	40,500
Operating transfers in	(765,578)	(617,395)	707,888	57,690	1,382,973
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	(148,183)	(617,395)	707,888	98,190	40,500
Net change in cash balances	347,274	(277,963)	-	67,391	136,702
Cash balances beginning of year	3,659,745	277,963	-	79,903	4,017,611
Cash balances end of year	\$ 4,007,019	-	-	147,294	4,154,313
Cash Basis Fund Balances:					
Reserved for overpass demolition	\$ 100,000	-	-	-	100,000
Unreserved:					
General fund	3,907,019	-	-	-	3,931,019
Special revenue funds	-	-	-	3,776	3,776
Capital projects funds	-	-	-	143,518	143,518
Total cash basis fund balances	\$ 4,007,019	-	-	147,294	4,154,313

See notes to financial statements.

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2010

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 81,746	86,504	168,250
Operating disbursements:			
Business type activities	77,428	101,985	179,413
Excess (deficiency) of operating receipts over (under) operating disbursements	4,318	(15,481)	(11,163)
Non-operating receipts:			
Miscellaneous	8,364	390	8,754
Net change in cash balances	12,682	(15,091)	(2,409)
Cash balances beginning of year	30,140	47,168	77,308
Cash balances end of year	<u>\$ 42,822</u>	<u>32,077</u>	<u>74,899</u>
 Cash Basis Fund Balances:			
Unreserved	<u>\$ 42,822</u>	<u>32,077</u>	<u>74,899</u>

See notes to financial statements.

CITY OF MARQUETTE
Notes to Financial Statements
June 30, 2010

(1) **Summary of Significant Accounting Policies**

The City of Marquette is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1860 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Marquette has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria.

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>
Mar-Mac Unified Law Enforcement District	Created in 1999 under Chapter 28 E of the Code of Iowa to provide police services to the cities of Marquette and McGregor. The District is governed by a five member board, two of which are appointed by the City of Marquette, who are persons currently serving as either Mayor or Council Member of Marquette. Appointments are made by the Mayor, subject to Council approval; provided however, that if the Mayor

appoints himself/herself, Council approval is not required. The City of Marquette shall appropriate and pay to the District each fiscal year a sum equal to 65% of the District's budget for the year.

The District issues a publicly available audited financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: Mar-Mac Police District; 319 Pleasant Drive; Marquette, Iowa.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and The Mar-Mac Driftless Area Wetlands Centre. As described in Note 8, the City's participation in the Mar-Mac Driftless Area Wetlands Centre meets the criteria of a joint venture since there is an ongoing responsibility for the City.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service. Activity between the primary government (the City) and the discretely presented component unit (the Mar-Mac Unified Law Enforcement District) are reported as if they were external transactions and are classified separately from internal activities within the primary government.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net assets are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted

net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects:

The Flood Control Fund is used to account for improvements to the City's flood control system.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Marquette maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of deposit) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City. At June 30, 2010 the City had \$ 3,833,328 invested in certificates of deposit with maturities ranging from 27 to 449 days.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The Primary Government's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$ 13,365, \$ 11,562 and \$ 8,990, respectively, equal to the required contribution for each year.

Certain employees in special risk occupations and the Discretely Presented Component Unit contribute an actuarially determined contribution rate. The Discretely Presented Component Unit's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$ 11,391, \$ 9,765 and \$ 9,340, respectively, equal to the required contributions for the year.

(4) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The Discretely Presented Component Unit operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City and the Discretely Presented

Component Unit. The City and the Discretely Presented Component Unit finance the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 367 for single coverage and \$ 902 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010 the City contributed \$ 33,986 and plan members contributed \$ 2,880. The most recent active member monthly premiums for the Discretely Presented Component Unit and plan members are \$ 330 for single coverage and \$ 811 for family coverage. For the year ended June 30, 2010 the Discretely Presented Component Unit contributed \$ 19,645 and plan members contributed \$ 2,598.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death.

These accumulations are not recognized as disbursements until used or paid. The City's and the Law Enforcement District's approximate liabilities for earned compensated absences payable to employees at June 30, 2010, are as follows:

<u>Type of Benefit</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit</u>
	<u>Amount</u>	<u>Amount</u>
Vacation	\$ 2,400	5,700
Compensatory hours	-	1,900
Total	<u>\$ 2,400</u>	<u>7,600</u>

These liabilities have been computed based on rates of pay as of June 30, 2010.

(6) Excursion Gambling Boat Dock Site Lease Agreement

On July 10, 1994, the City entered into a dock site lease agreement with a Company to operate and manage casino gambling on excursion gambling boats and related activities in and about the City of Marquette. The dock site lease agreement provides docking facilities for a twenty five year term beginning June 10, 1994. The agreement provides that the Company pay the City (a) \$ 105,000 per year payable in equal monthly installments; (b) fifty cents per ticketed passenger payable monthly; (c) two and one-half percent of the net gambling receipts in excess of \$ 10,000,000 per year; and (d) fifty

cents per passenger admission pursuant to Chapter 99F.10 of the Code of Iowa and the City ordinance for dock site rental. Additionally, the City provides 24 hour public safety protection for \$ 75,000 per year payable monthly.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Urban Renewal Tax Increment	\$ 617,395
Capital Projects Flood Control	General	707,888
Buildings	General	7,599
Streets	General	733
Riverfront	General	50
Ballpark Improvement	General	23,384
Edgar Street-Larson Property	General	110
Edgar Street-Lahey Property	General	1,814
Pleasant Ridge	General	24,000
Total		\$ 1,382,973

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Joint Venture

The City participates with the City of McGregor, Iowa, and the MFL Mar-Mac Community School District in a multi-use community facility known as the Mar-Mac Driftless Area Wetlands Centre (the "Centre"). The Centre was created and operates under Chapter 28E of the Code of Iowa. The Centre is governed by a five member board, two of whom

shall be residents of Marquette appointed by the Mayor of Marquette subject to approval by a majority vote of the City Council. The City of Marquette shall initially contribute \$ 20,000 to the Centre, grant a fifty year lease for a two acre parcel of land at an annual rental of \$ 1, and extend municipal water and sewer mains and service lines as necessary at no charge. In accordance with the 28E Agreement creating the Centre, the City appropriates and pays to the Centre 50% of the Centre's budget to the extent funds are not made available to the Centre from other sources. If the Centre and both city councils fail to agree upon and approve a budget for the Centre for the next fiscal year by February 1, the 28E Agreement shall automatically terminate. Upon termination, for a period of 120 days Marquette shall have the exclusive right and option to purchase the Centre and all non-cash assets for a purchase price equal to the lesser of:

- i the fair market value of such assets
- ii a prorata portion of the School District's original \$ 180,000 reduced by one-tenth each year and the payment of any and all other outstanding obligations of the Centre

(9) Risk Management

The City of Marquette is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks exceeded commercial insurance coverage by nearly \$ 30,000 in 2008. The City received approximately \$ 5,300 in public assistance grants to defray the cost of the Bloody Run floods.

(10) Related Party Transactions

The City paid \$ 127,323 to Mar-Mac Unified Law Enforcement District, the City's discretely presented component unit, for police services during the fiscal year ended June 30, 2010.

(11) Commitments

The City's contracted obligation to its discretely presented component unit for police service for the fiscal year ended June 30, 2011 is \$ 166,541.

The City entered into a flood control construction contract totaling \$ 1,117,017 in January 2010 of which \$ 75,142 was outstanding at June 30, 2010.

(12) Significant Concentration of Credit Risk

Receipts from one business comprised approximately 37% of the City's total receipts for the fiscal year ended June 30, 2010.

(13) Litigation

The City is involved in a legal proceeding involving a land owner and storm water run-off. The City believes that the litigation will not materially affect its cash basis net assets, fund balance or future operating results of the City, although no assurance can be given with respect to the ultimate outcome of any litigation.

Required Supplementary Information

CITY OF MARQUETTE
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2010

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 6,931	-	-	-	6,931	58,184	26,000	(19,069)
Tax increment financing	339,432	-	-	-	339,432	329,866	500,000	(160,568)
Other city tax	670,494	-	-	-	670,494	555,398	535,398	135,096
Licenses and permits	3,920	-	-	-	3,920	1,175	4,350	(430)
Use of money and property	297,680	-	-	-	297,680	290,194	290,194	7,486
Intergovernmental	565,036	-	-	-	565,036	35,000	35,000	530,036
Charges for service	42,967	168,250	-	-	211,217	236,500	236,500	(25,283)
Miscellaneous	9,465	8,754	-	-	18,219	34,200	34,200	(15,981)
Total receipts	1,935,925	177,004	2,112,929	1,540,517	1,661,642			451,287
Disbursements:								
Public safety	143,493	-	-	-	143,493	196,840	143,883	390
Public works	132,156	-	-	-	132,156	182,960	182,960	50,804
Health and social services	316	-	-	-	316	2,159	1,316	1,000
Culture and recreation	79,799	-	-	-	79,799	143,474	88,764	8,965
Community and economic development	219,968	-	-	-	219,968	10,635	10,635	10,003
General government	1,263,359	-	-	-	1,263,359	253,959	235,574	15,606
Capital projects	-	-	-	-	-	1,270,000	1,624,500	361,141
Business type activities	-	179,413	-	-	179,413	203,820	199,378	19,965
Total disbursements	1,839,723	179,413	2,019,136	2,263,847	2,487,010			467,874
Excess (deficiency) of receipts over (under) disbursements	96,202	(2,409)	-	-	93,793	(723,330)	(825,368)	919,161
Other financing sources, net	40,500	-	-	-	40,500	-	-	40,500
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	136,702	(2,409)	134,293	(723,330)	959,661			
Balances beginning of year	4,017,611	77,308	4,094,919	3,907,687	4,017,611			
Balances end of year	\$ 4,154,313	74,899	4,229,212	3,184,357	3,192,243			

See accompanying independent auditor's report and notes to required supplementary information-budgetary reporting.

CITY OF MARQUETTE

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 223,163. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF MARQUETTE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

Schedule 1

	Special		Capital Projects							Total
	Revenue	Road	Buildings	Streets	Riverfront	Pleasant Ridge	Ballpark Improvement	Edgar Street Property	Edgar Street Property	
Receipts:										
Intergovernmental	\$ 38,497	-	-	-	-	-	-	-	-	38,497
Disbursements:										
Operating:										
Public works	34,980	-	-	-	-	-	-	-	-	34,980
Capital projects	-	7,599	733	50	50	626	23,384	110	1,814	34,316
Total disbursements	34,980	7,599	733	50	50	626	23,384	110	1,814	69,296
Excess (deficiency) of receipts over (under) disbursements	3,517	(7,599)	(733)	(50)	(50)	(626)	(23,384)	(110)	(1,814)	(30,799)
Other financing sources	-	-	-	-	-	40,500	-	-	-	40,500
Sale of capital assets	-	7,599	733	50	50	24,000	23,384	110	1,814	57,690
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Total other financing sources	-	7,599	733	50	50	64,500	23,384	110	1,814	98,190
Net change in cash balances	3,517	-	-	-	-	63,874	-	-	-	67,391
Cash balances beginning of year	259	-	-	-	-	79,644	-	-	-	79,903
Cash balances end of year	\$ 3,776	-	-	-	-	143,518	-	-	-	147,294
Cash Basis Fund Balances:										
Unreserved:										
Special revenue fund	\$ 3,776	-	-	-	-	143,518	-	-	-	3,776
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 3,776	-	-	-	-	143,518	-	-	-	147,294

See accompanying independent auditor's report.

Schedule 2

CITY OF MARQUETTE
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 For the Last Seven Years

	2010	2009	2008	2007	2006	2005	2004
Receipts:							
Property tax	\$ 6,931	26,889	23,265	22,550	20,967	10,102	39,417
Tax increment financing	339,432	409,550	410,743	405,772	384,135	430,377	264,992
Other city tax	670,494	739,630	868,175	1,062,131	1,212,068	1,232,376	1,245,022
Licenses and permits	3,920	1,695	2,170	715	2,145	2,180	2,198
Use of money and property	297,680	356,740	242,257	333,943	268,900	225,990	251,337
Intergovernmental	565,036	55,536	248,659	39,624	39,850	114,698	82,907
Charges for service	42,967	42,022	26,821	25,887	24,558	25,108	25,176
Miscellaneous	9,465	15,603	4,340	27,876	10,333	24,485	58,858
Total	\$ 1,935,925	1,647,665	1,826,430	1,918,498	1,962,956	2,065,316	1,969,307
Disbursements:							
Operating:							
Public safety	\$ 143,493	182,553	250,875	149,857	147,862	140,173	137,888
Public works	132,156	147,810	146,006	159,772	174,498	162,829	115,346
Health and social services	316	316	1,138	300	316	1,053	1,053
Culture and recreation	79,799	60,454	58,216	57,013	72,257	65,722	63,928
Community and economic development	632	10,632	60,632	10,000	632	831	10,526
General government	219,966	220,080	144,417	192,818	185,976	163,021	171,283
Debt service	1,263,359	325,301	462,357	303,413	315,095	301,538	-
Capital projects	-	-	-	2,137,519	848,681	484,750	1,553,156
Total	\$ 1,839,723	947,146	1,123,661	3,010,692	1,745,317	1,319,917	2,053,180

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated November 5, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marquette's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Marquette's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marquette's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Marquette's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marquette's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The City of Marquette's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the City's responses, we did not audit the City of Marquette's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Marquette and other parties to whom the City of Marquette may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marquette during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 5, 2010


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF MARQUETTE
SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL MATERIAL WEAKNESSES:

No material weaknesses were identified

INSTANCES OF NON-COMPLIANCE:

No matters were noted

CITY OF MARQUETTE
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 **Certified Budget** - Disbursements for the year ended June 30, 2010 did not exceed the amounts budgeted.
- II-B-10 **Questionable Disbursements** - We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-10 **Business Transactions** - No business transactions between City and City officials or employees were noted.
- II-E-10 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-10 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-10 **Request for Proposal** - The City did not send out three requests for proposal in accordance with Chapter 11.6 of the Code of Iowa before employing a Certified Public Accountant to conduct your audit.

Recommendation - A minimum of three requests for proposal should be sent out and responses evaluated before engaging a firm to conduct your audit.

Response - Because our population is approximately 500, we are not required to have an audit. Also, it has been difficult to get responses to requests for proposal in the past.

Conclusion - Even if responses are not obtained, a minimum of three requests should be sent out.

II-I-10 Audit of 28E Organization - During the year ended June 30, 2010 the City became a participant in a multi-use community facility known as the Mar-Mac Driftless Area Wetlands Centre, which was created and operates under Chapter 28E of the Code of Iowa. According to Chapter 11.6 of the Iowa Code all 28E Organizations having more than \$ 100,000 of receipts are required to have an audit. After reviewing the organizational documents it appears that the Mar-Mac Driftless Area Wetlands Centre had receipts exceeding \$ 100,000 for the year ended June 30, 2010.

Recommendation - The governing board of the Mar-Mac Driftless Area Wetland Centre should be made aware of the audit requirement and three requests for audit proposals should be sent out.

Response - We will contact the board chairperson and remind him of the requirement.

Conclusion - Response accepted.